

# Economic Outlook: From Here to Price Stability

Michael Gregory, CFA

Deputy Chief Economist and  
Head of U.S. Economics,  
BMO Capital Markets  
[michael.gregory@bmo.com](mailto:michael.gregory@bmo.com)

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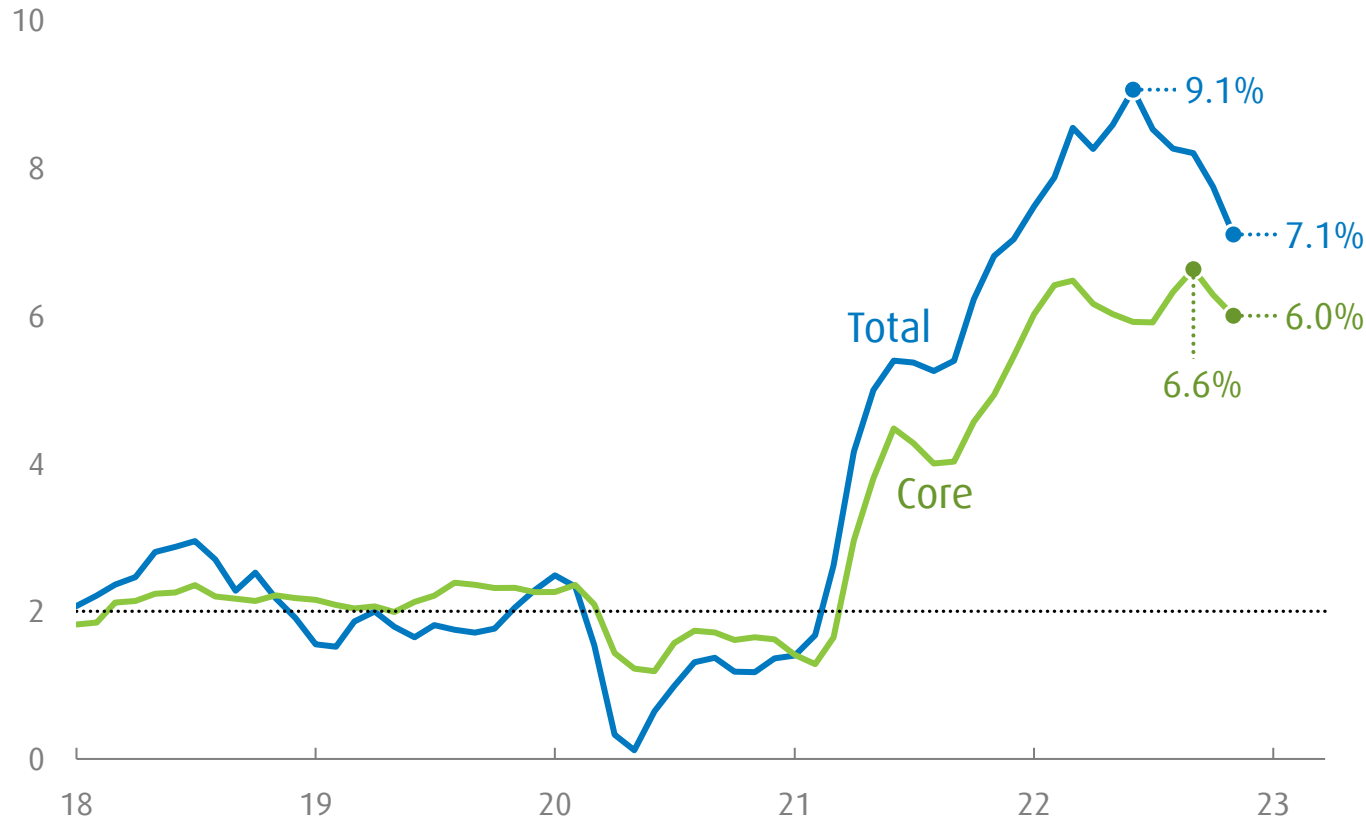
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# Inflation peaks at 40-year highs

United States (y/y % chng)

Consumer price index



Constrained supply:

Pandemic

Ukraine war

Strong demand:

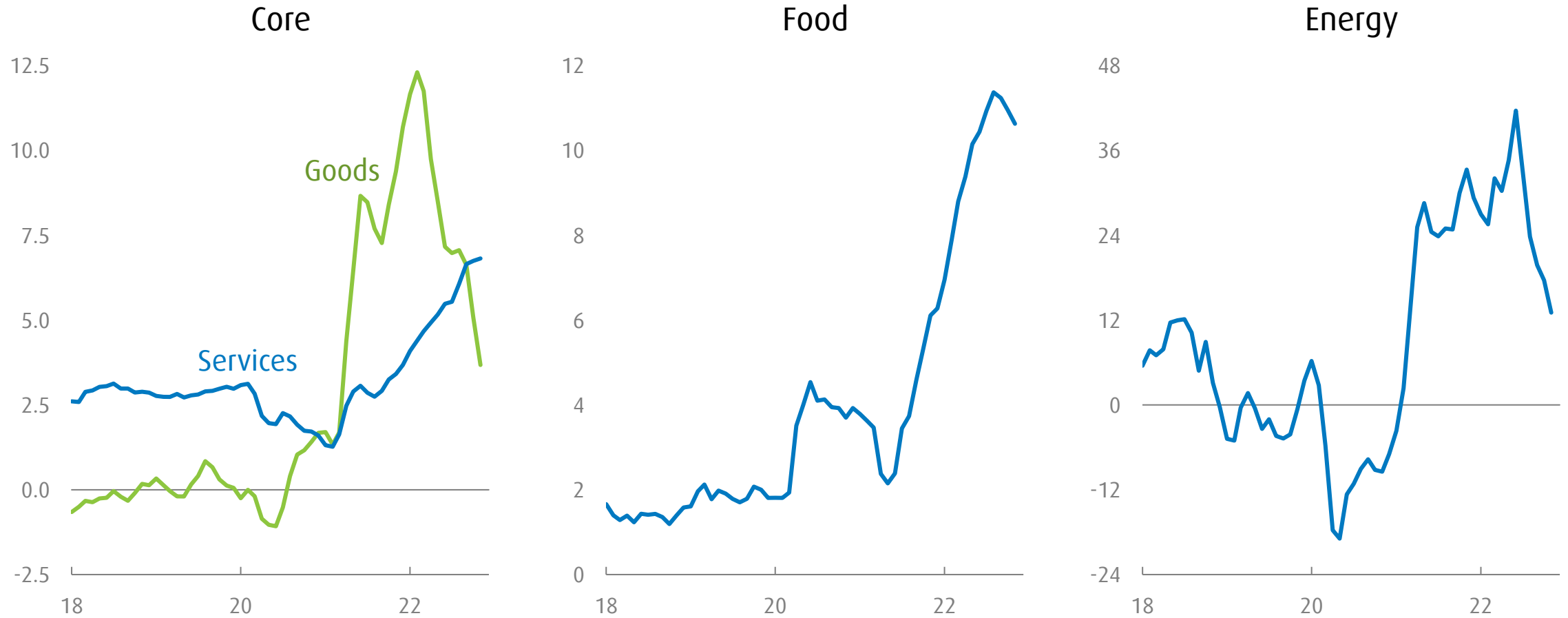
Pent-up spending

Policy stimulus

How soon 2%?

# Passing the inflation baton

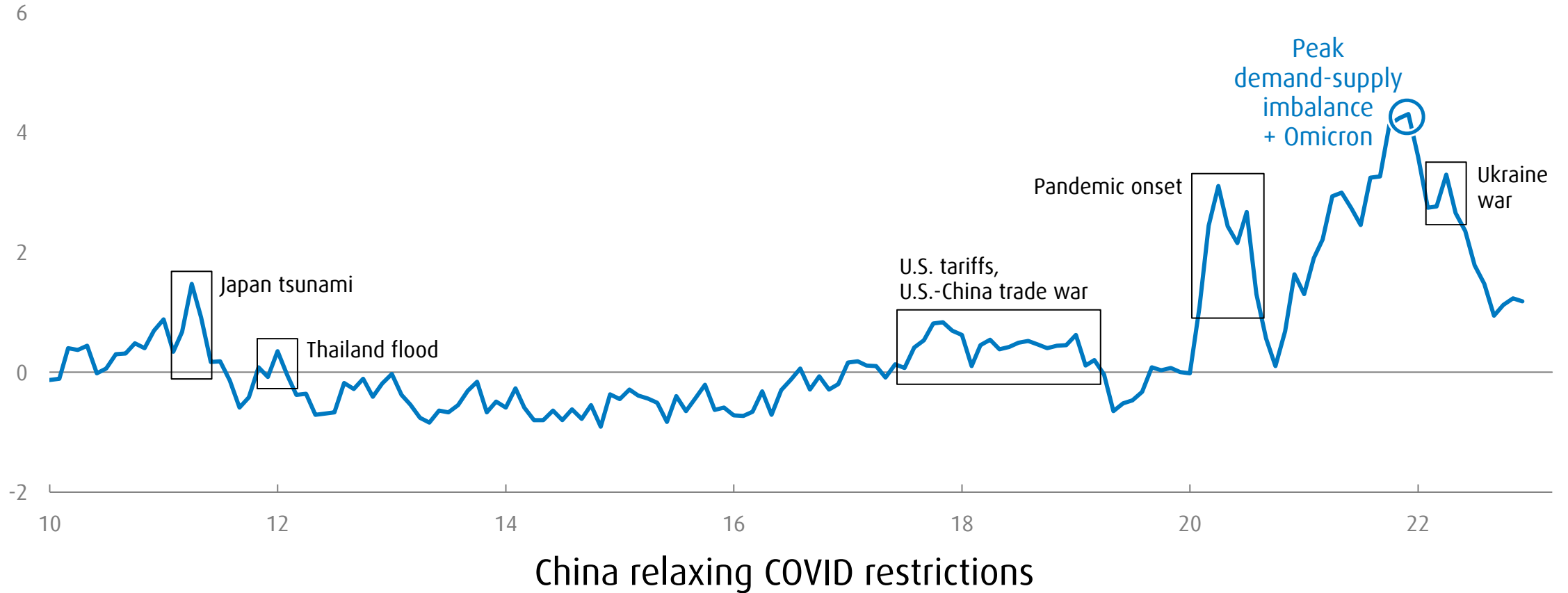
United States – Consumer price index (y/y % chng)



# Supply chains unsnarling

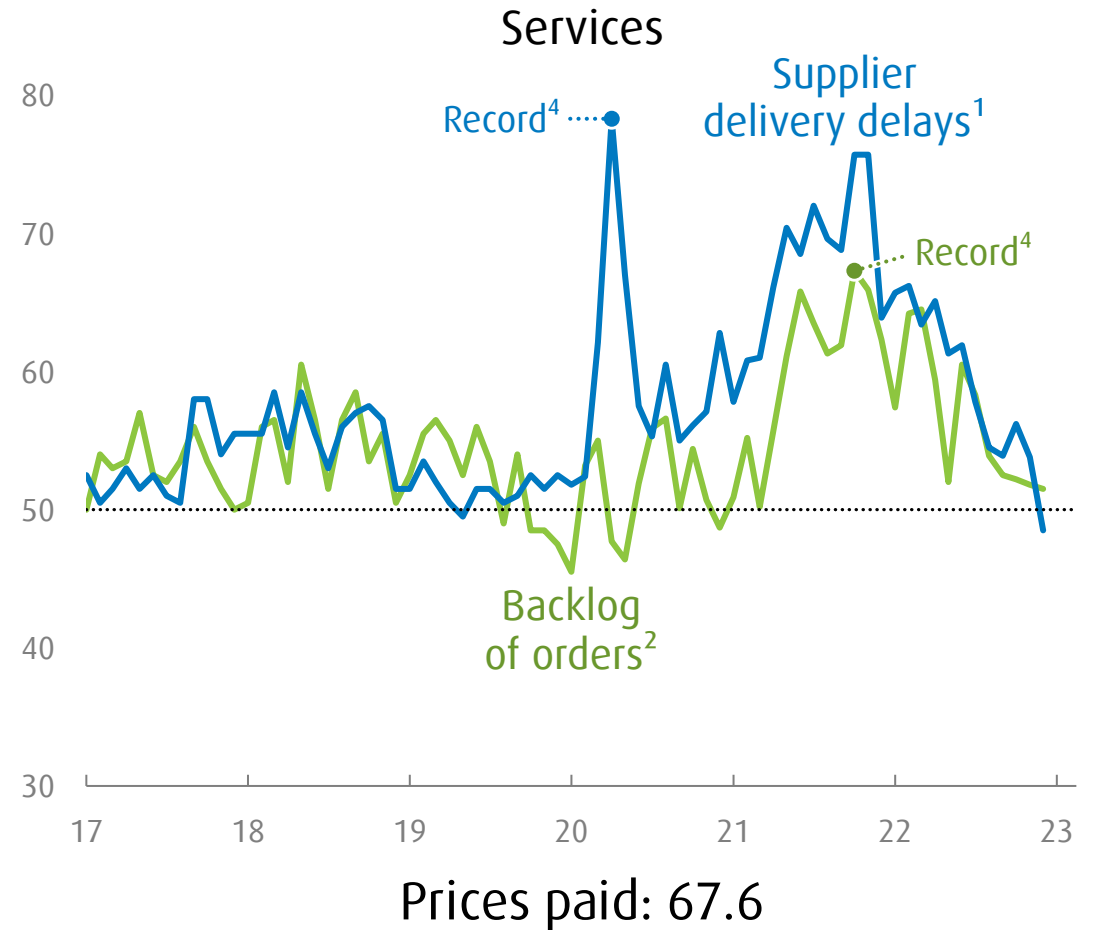
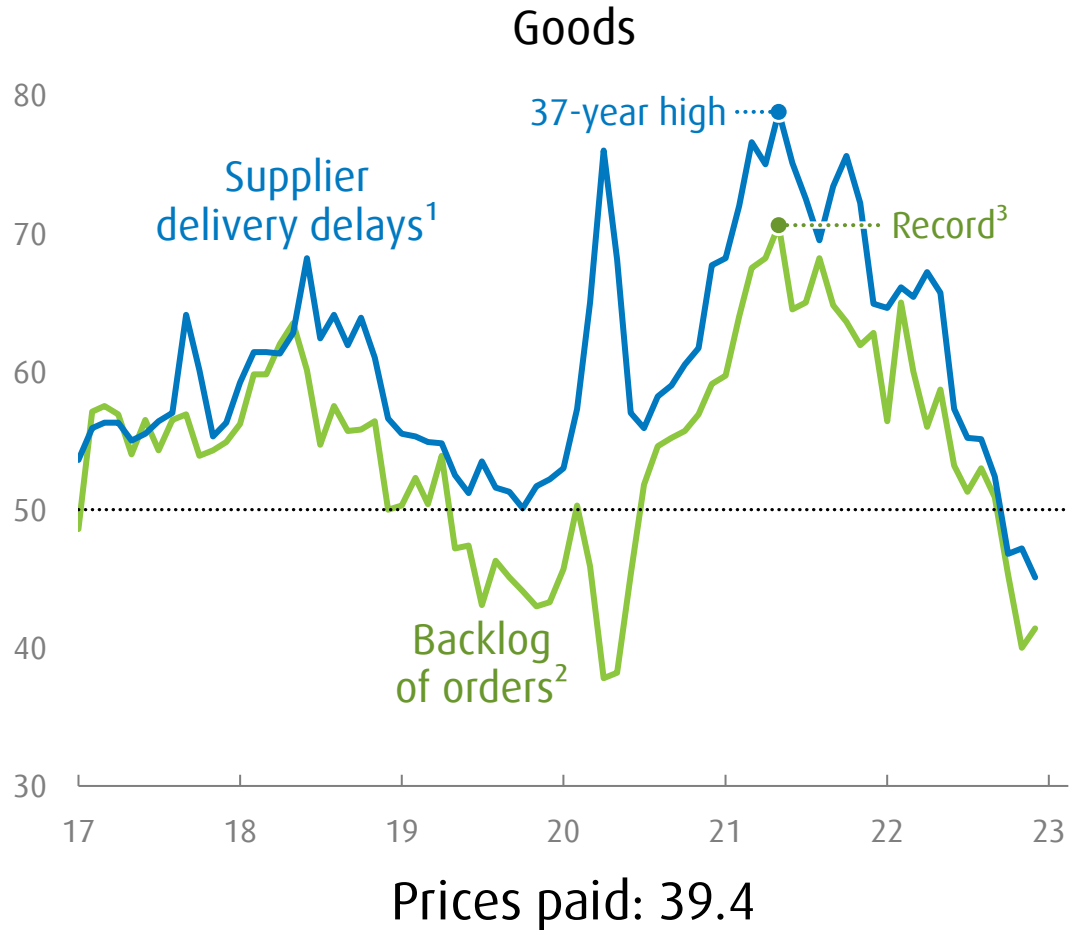
(standard deviations from average value)

## Global Supply Chain Pressure Index



# Bottlenecks ebbing

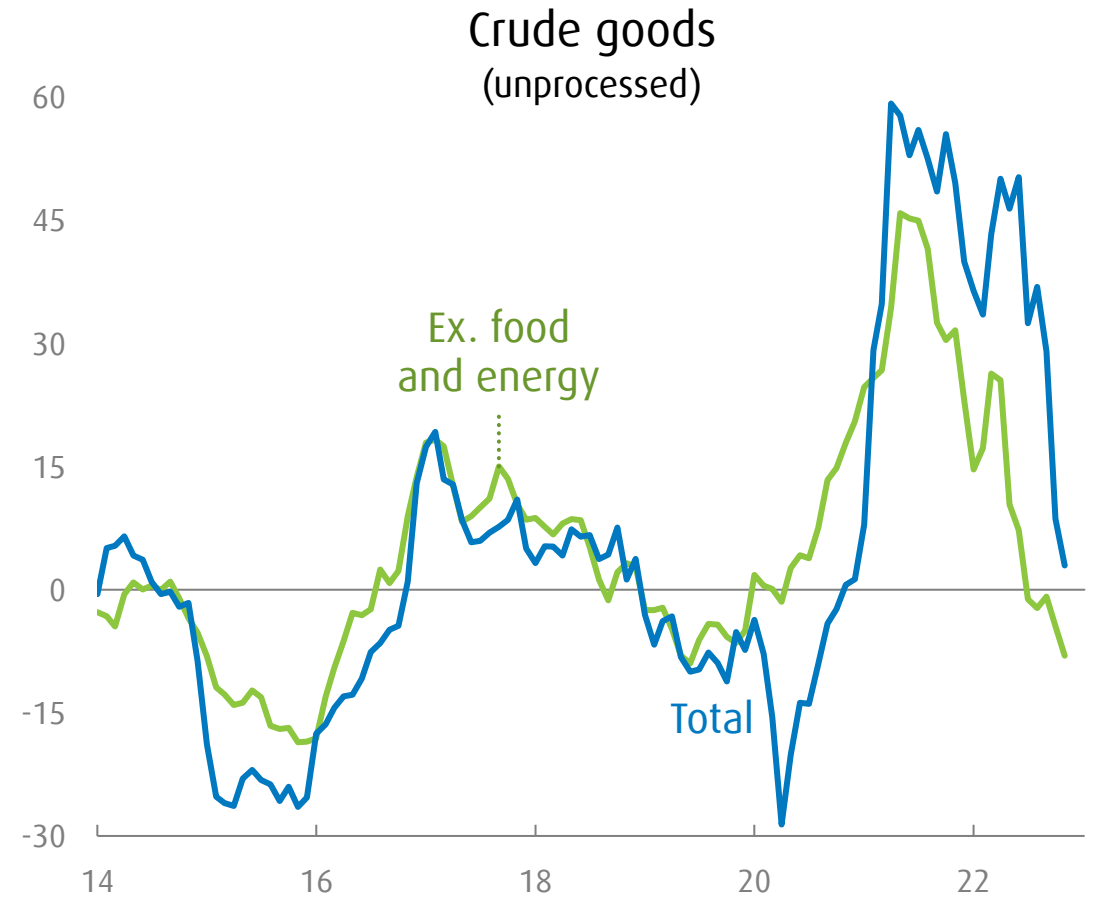
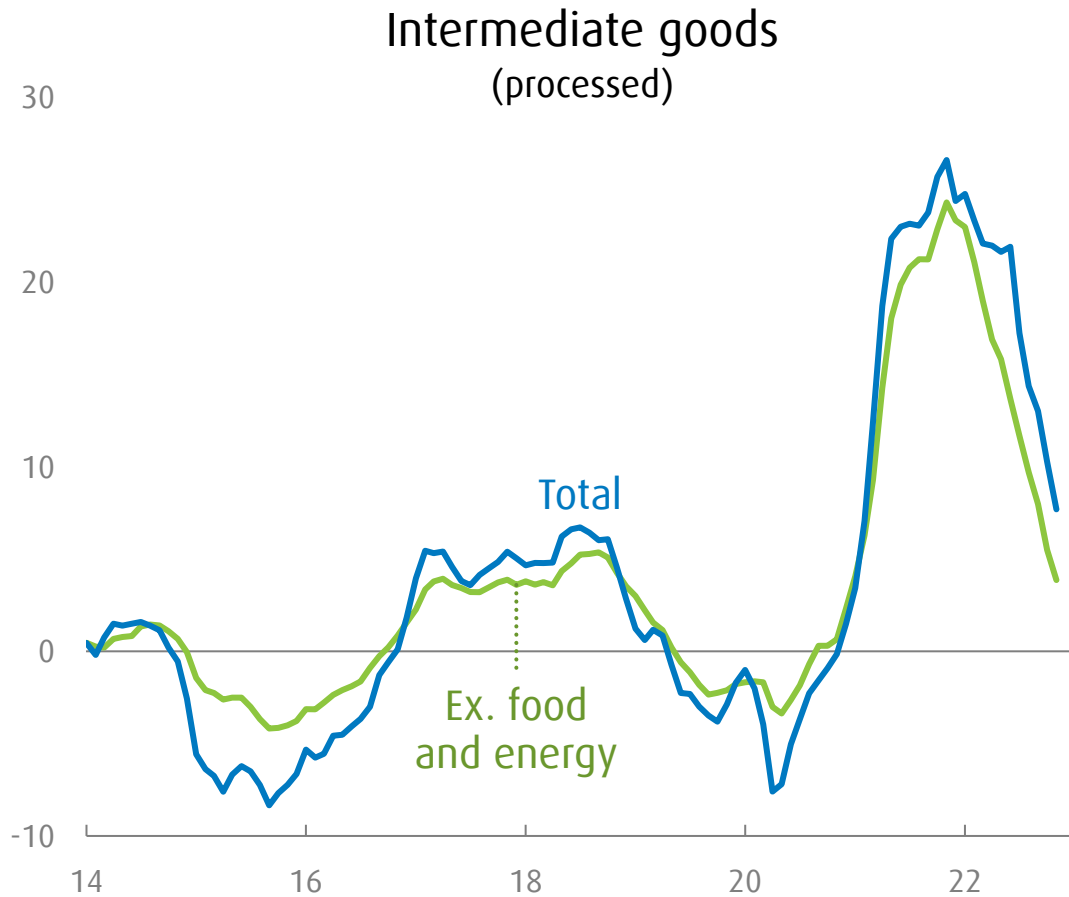
## United States – ISM indices



<sup>1</sup> 50+ = slower • <sup>2</sup> 50+ = increasing • Record levels back to: <sup>3</sup> 1993 • <sup>4</sup> 1997

# Producer price pressures subsiding

United States – Producer prices (y/y % chng)

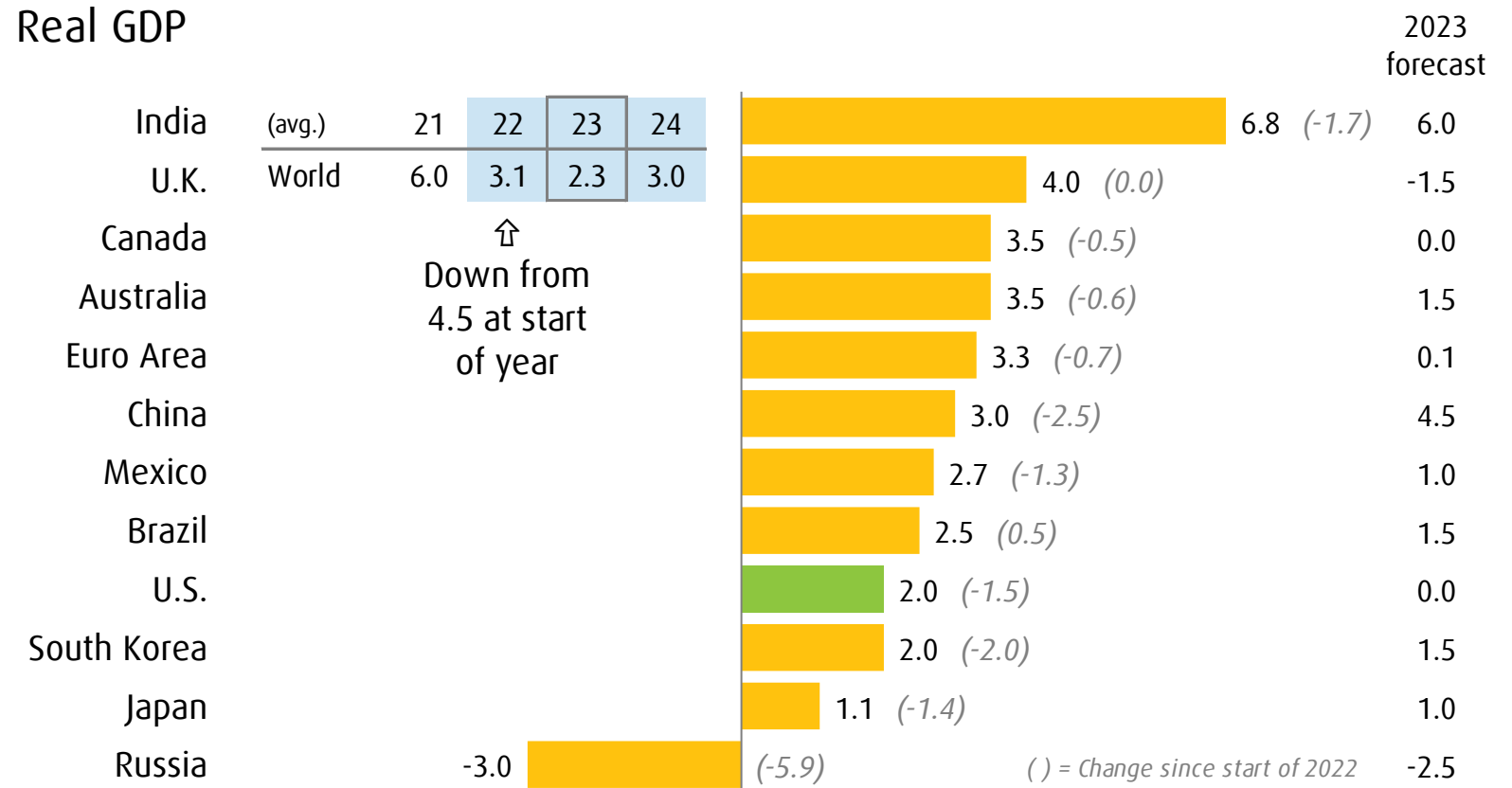


# Global growth slows

2022 forecast (% chng)



## Real GDP

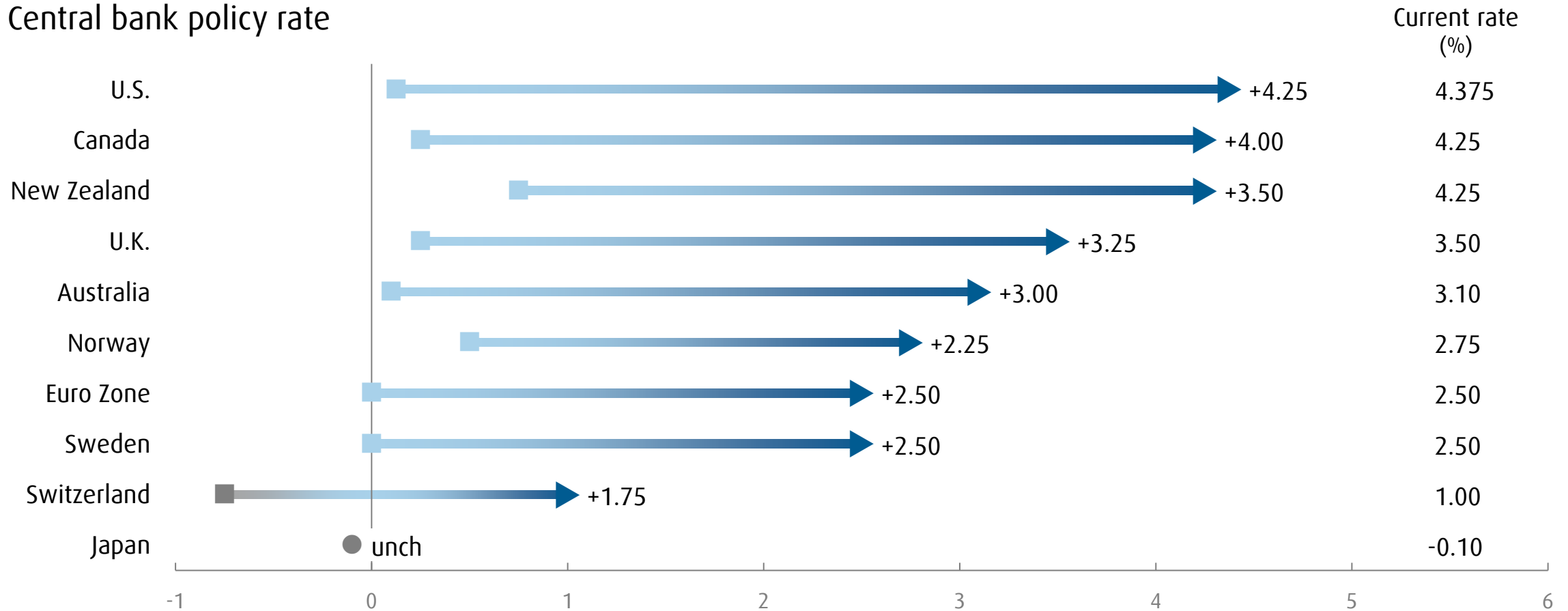


Weighing: war, inflation, rate hikes, China lockdowns

# G10 policy rate moves 2022

(year-to-date chng : ppts : as of January 6, 2023)

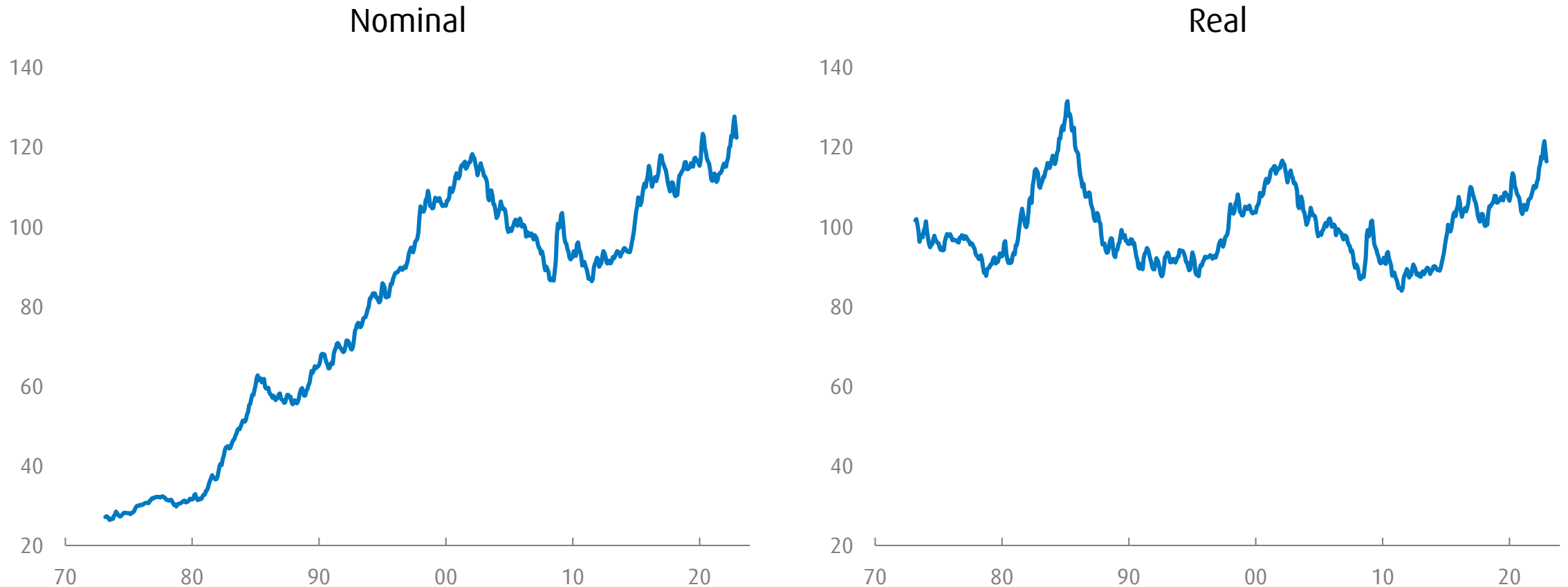
## Central bank policy rate





*“The dollar is our currency, but it’s your problem”* (Former Treasury Secretary John Connally [1971])

United States – Trade-weighted dollar index (January 2006 = 100)

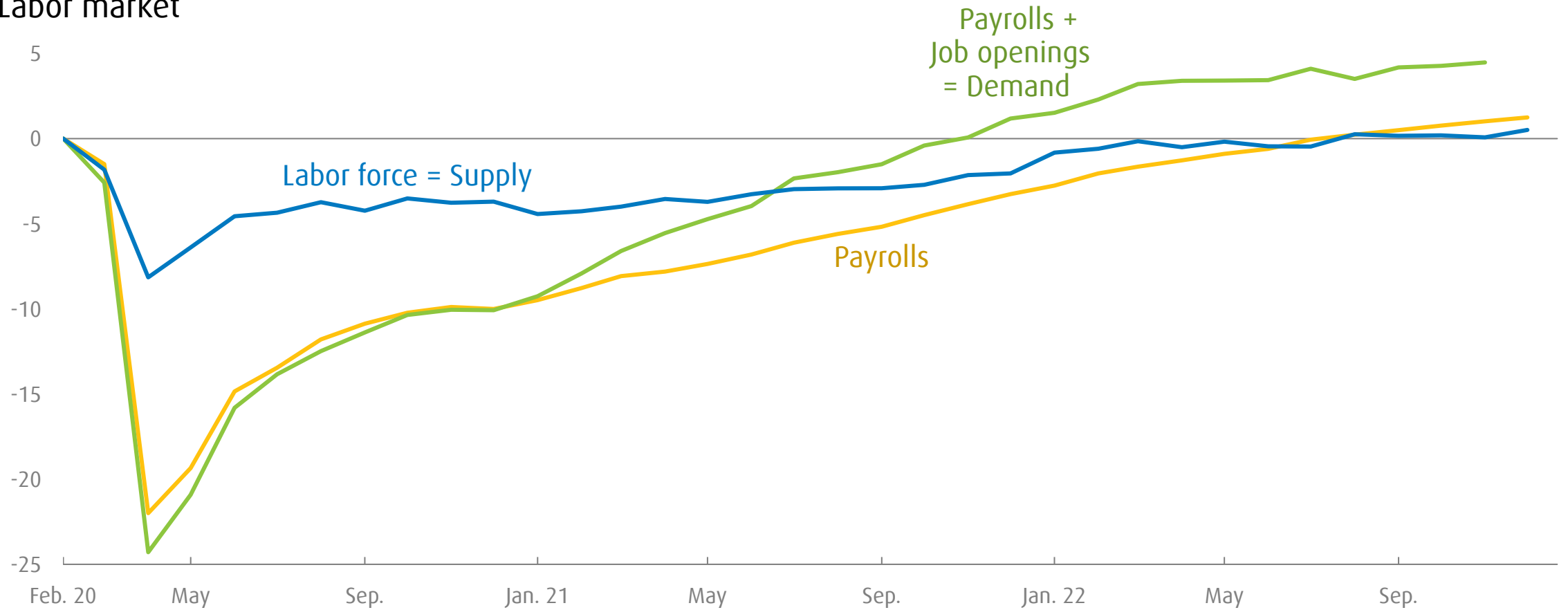


Greenback peaked in October

# Labor market mirrors economy: Strong demand > Constrained supply

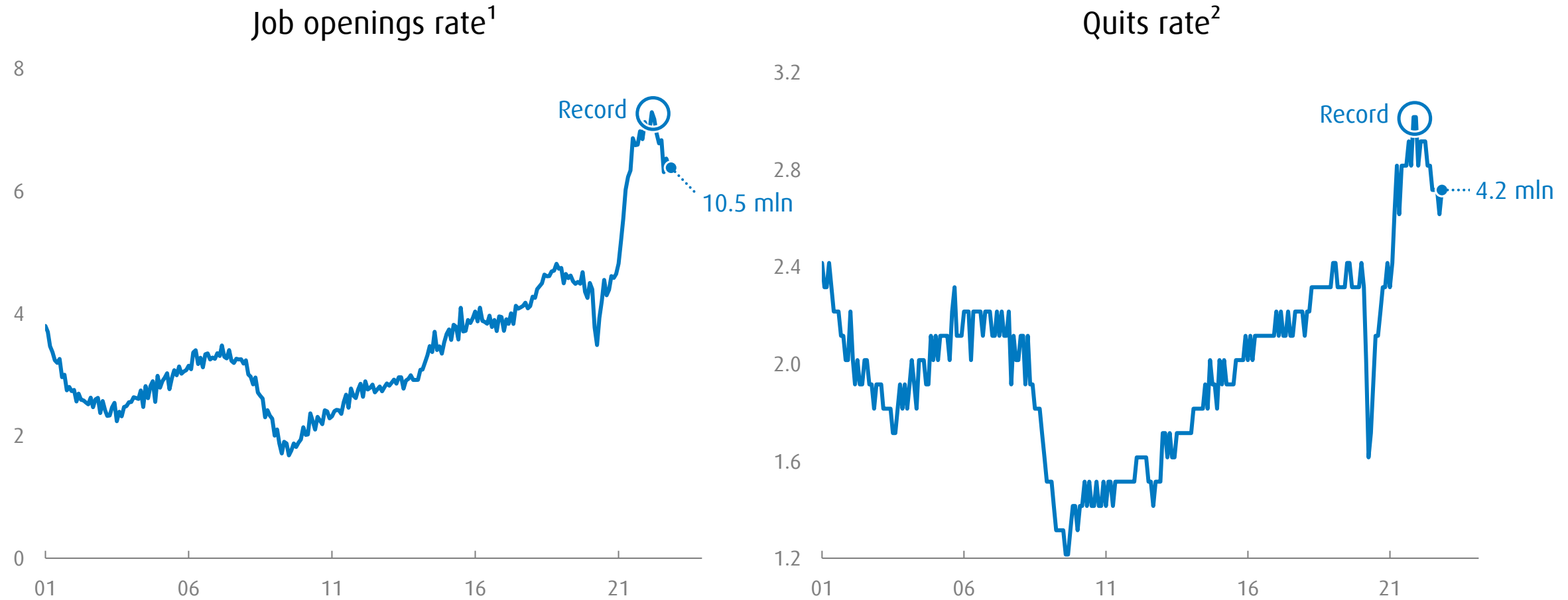
United States (net chng from February 2020 : mlns)

## Labor market



# Hard work hiring and keeping workers

## United States

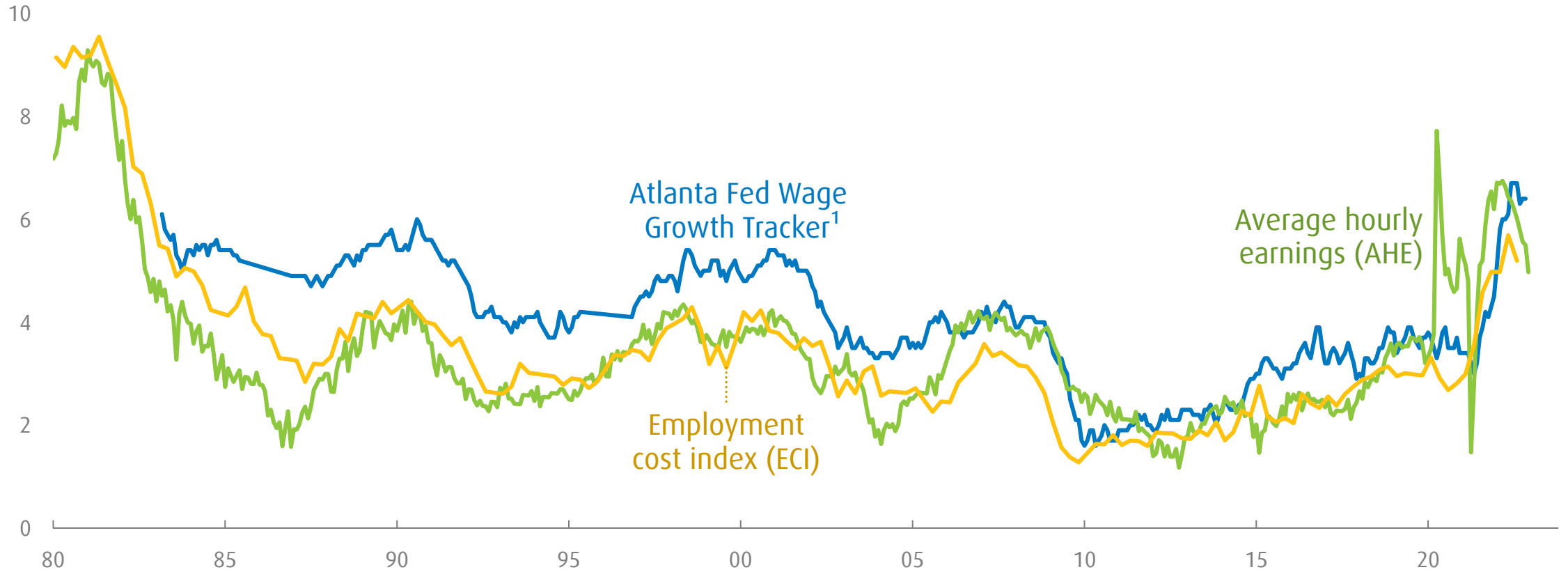


<sup>1</sup> (% of labor demand [payrolls + openings]) • <sup>2</sup> (% of payroll employment)

# Strong wage gains

United States (y/y % chng)

## Wages

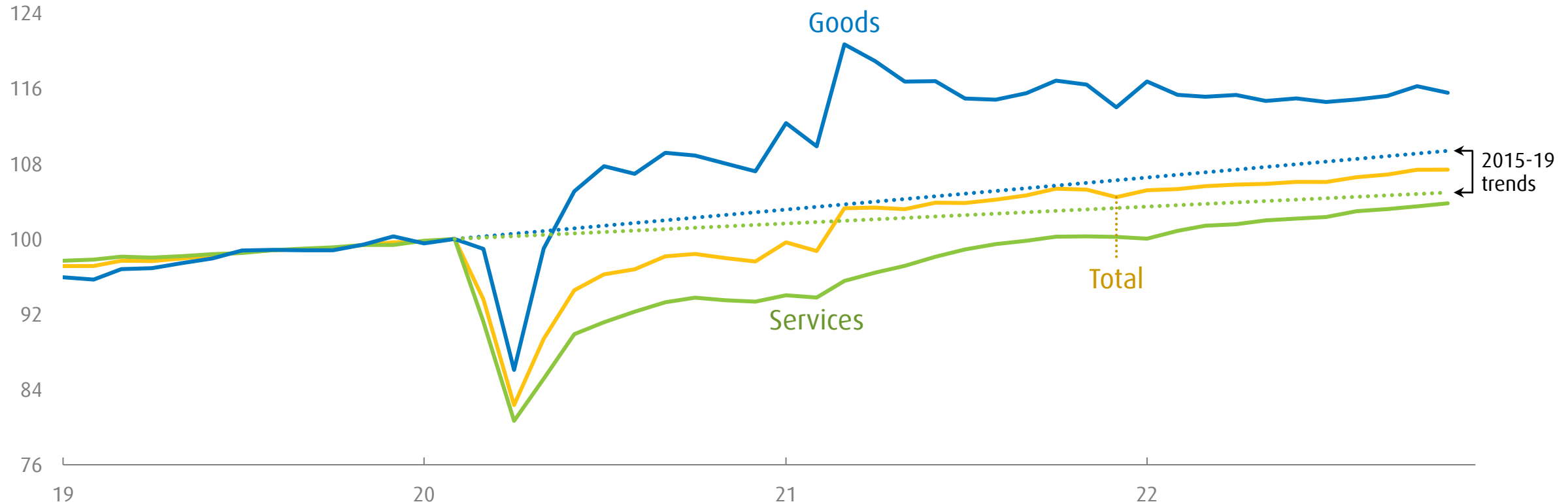


AHE = Production & nonsupervisory employees • ECI = Private-sector wages & salaries • <sup>1</sup> (3-mth m.a.)

# Pent-up demand for services

United States (February 2020 = 100)

## Real consumer spending

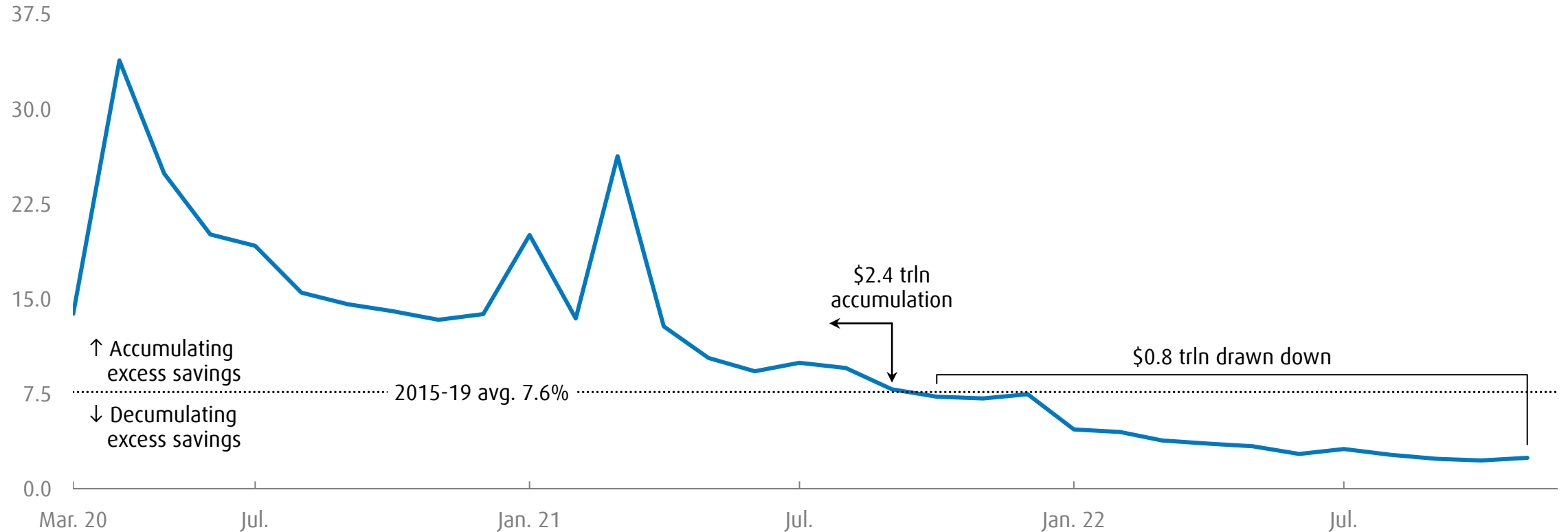


Some goods outlays restrained by supply shortages, shift to services

# Economy's saving grace

United States (percent)

Saving rate

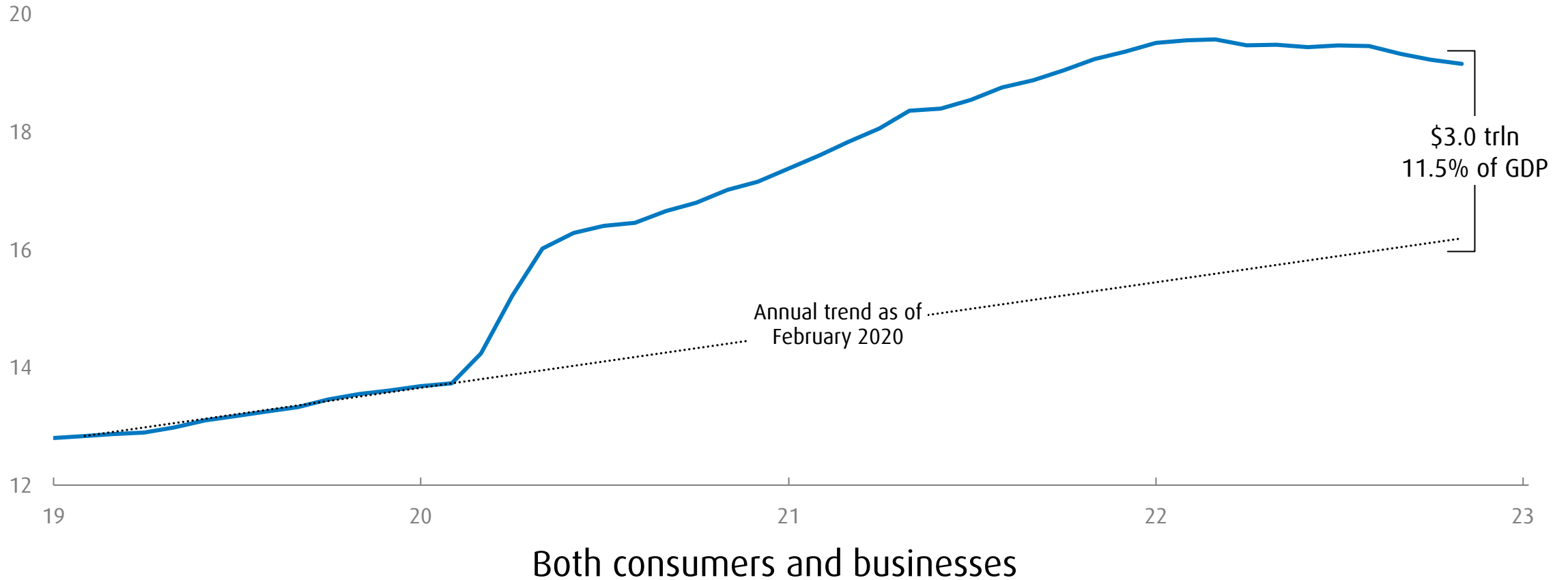


Skewed to higher income households... Some become 'permanent' savings

# Lots of liquidity

United States (US\$ trlns)

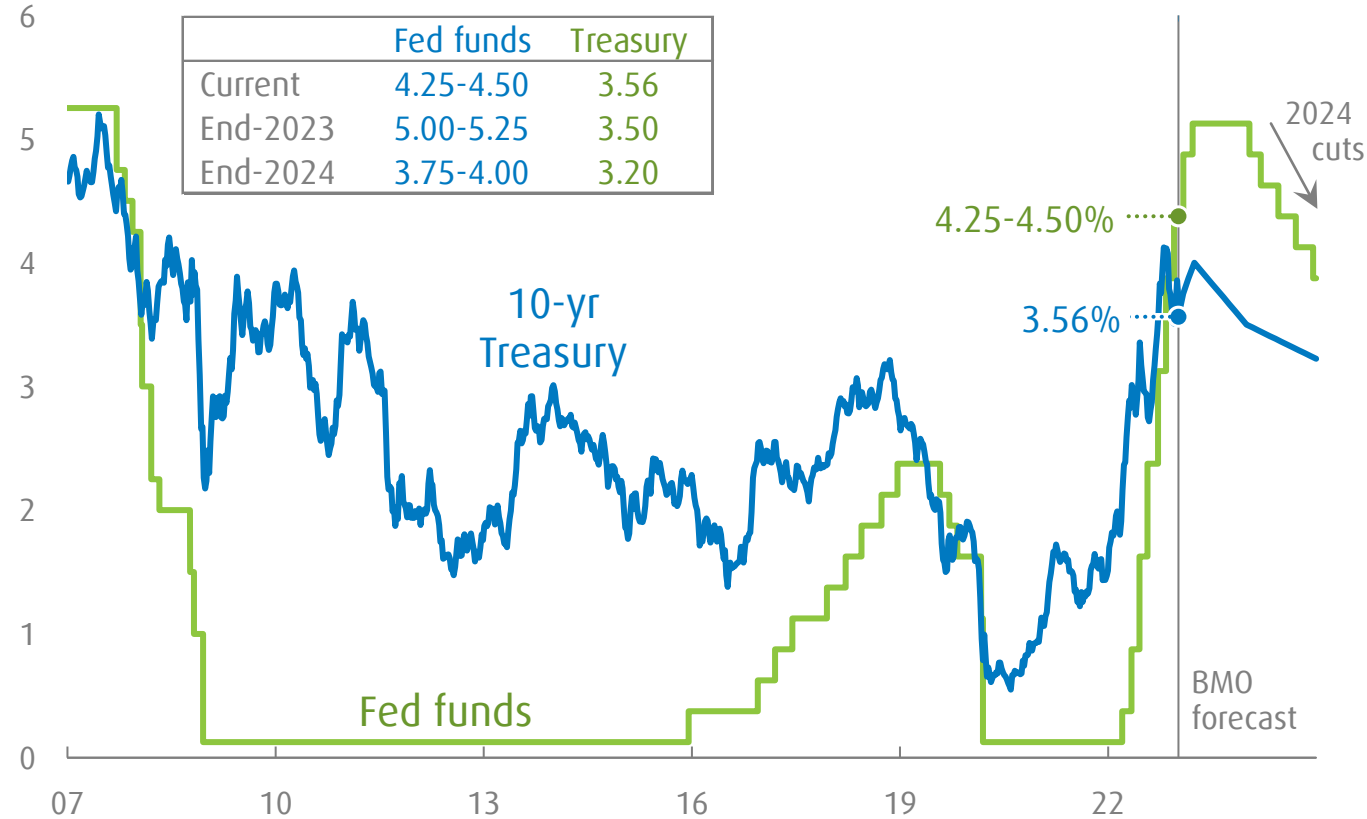
Deposits and retail money funds in M2



# Policy rates headed higher... *"We still have some ways to go"* [Chair Powell, December 14]

United States (% : as of January 6, 2023)

## Interest rates



Complemented by quantitative tightening (QT)

Inverting the yield curve

Weakening financial conditions

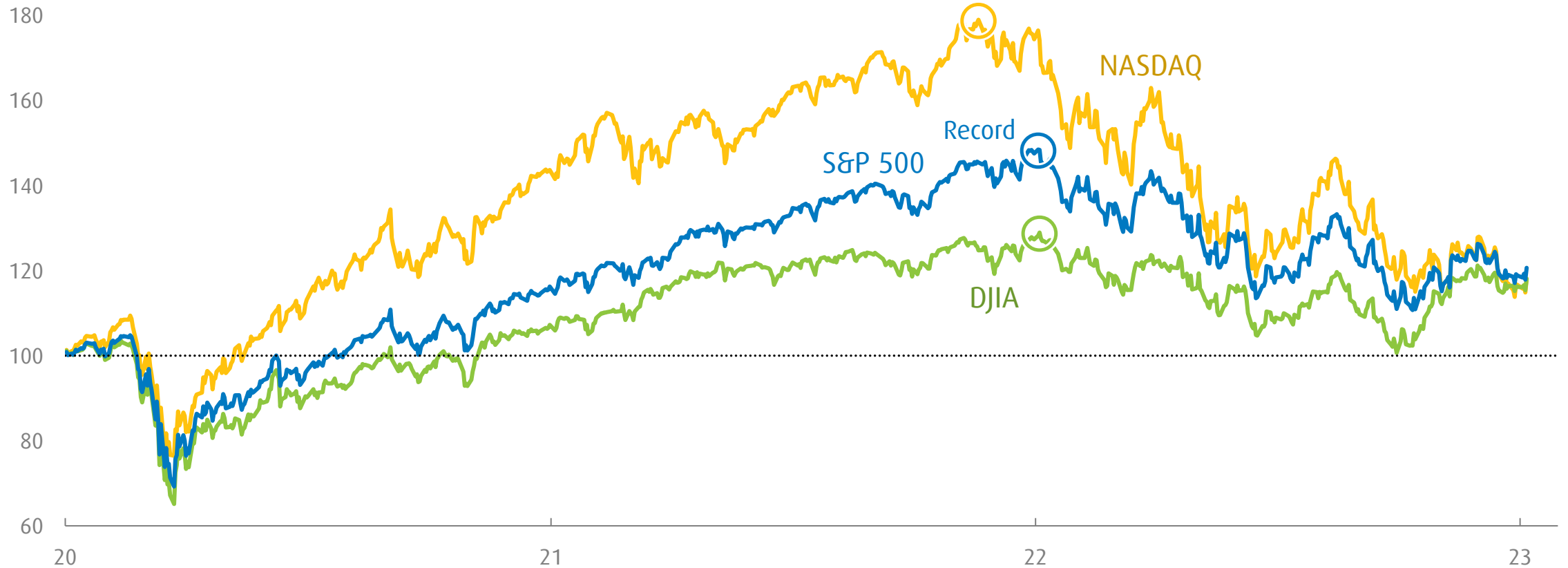
[history] weekly averages • [forecast] monthly averages



# Markets sagged as Fed tightened

United States (December 31, 2019 = 100 : as of January 6, 2023)

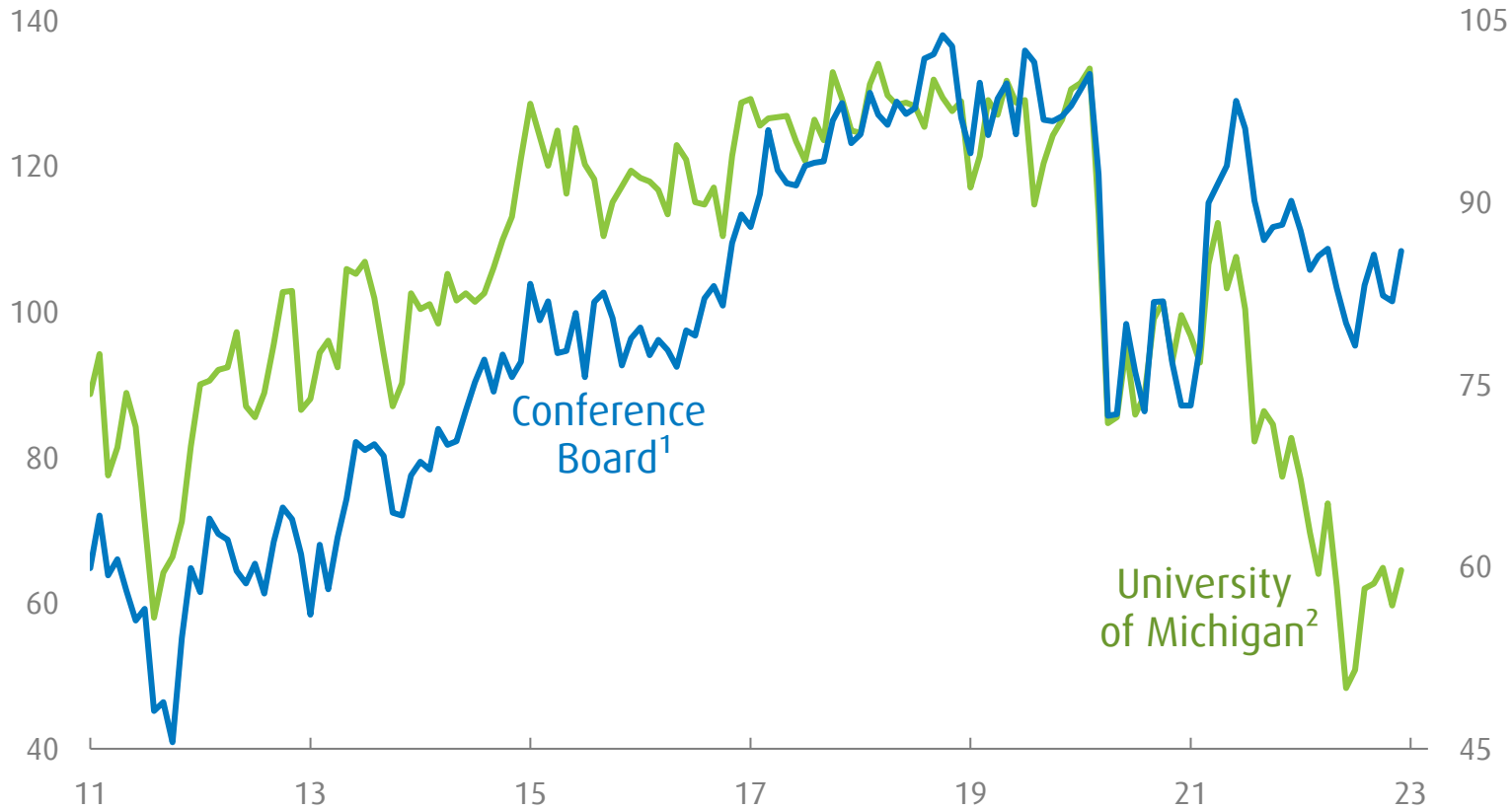
## Equity indices



# Confidence slipped

## United States

### Consumer confidence



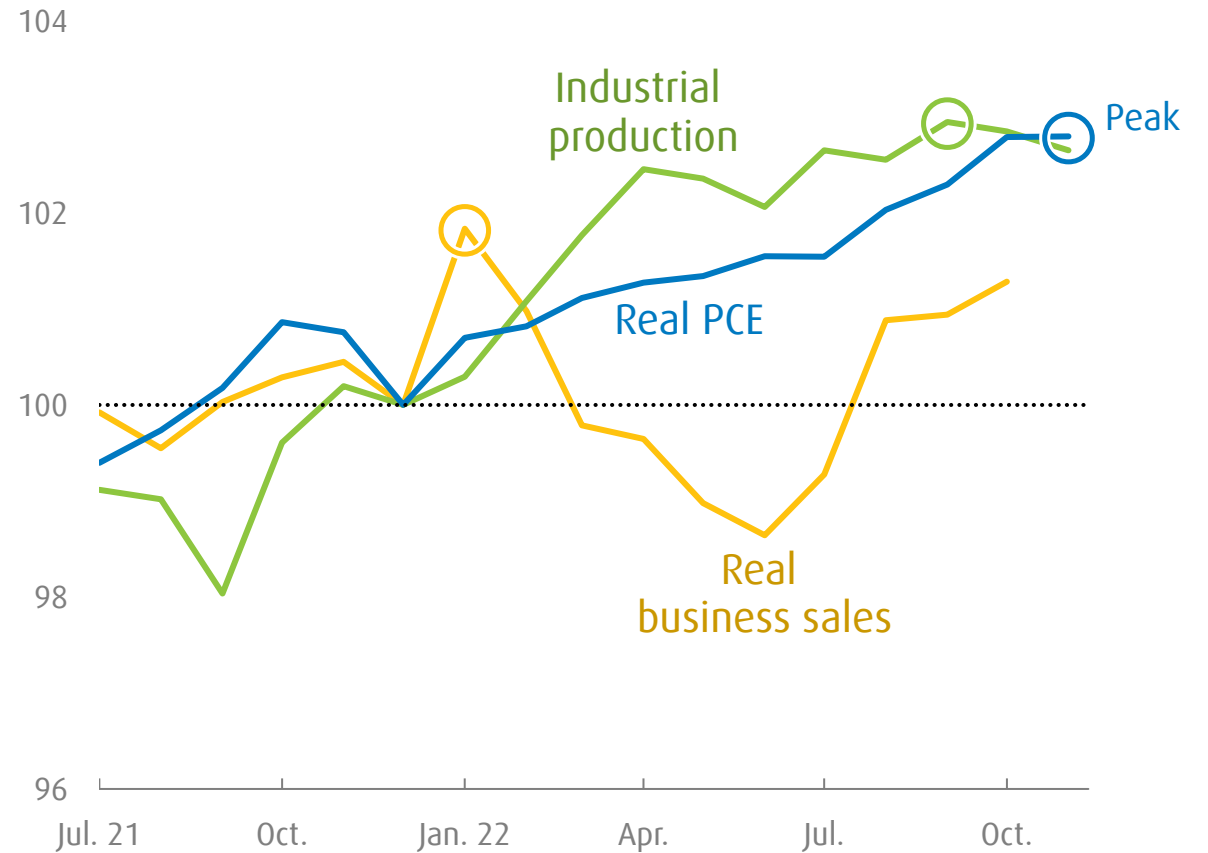
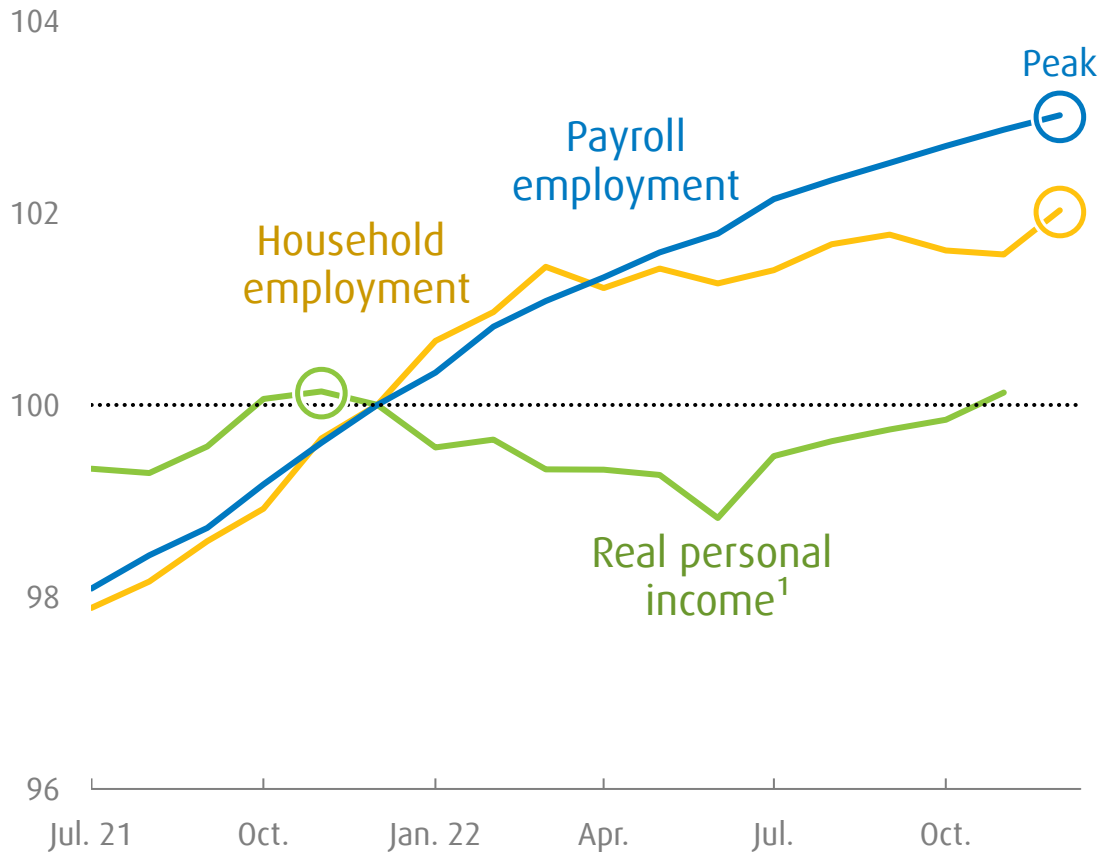
### Due to:

- High inflation  
(gas and grocery prices are key)
- Interest rates rising
- Markets sagging
- Recession fears

<sup>1</sup> (lhs : s.a. : 1985 = 100) • <sup>2</sup> (rhs : n.s.a. : 1966Q1 = 100)

# The “official” recession barometer

United States (December 2021 = 100)



Not all indicators have peaked, not all peaks are definitive

<sup>1</sup> Excluding transfer receipts

# From record lows to highest in a score of years

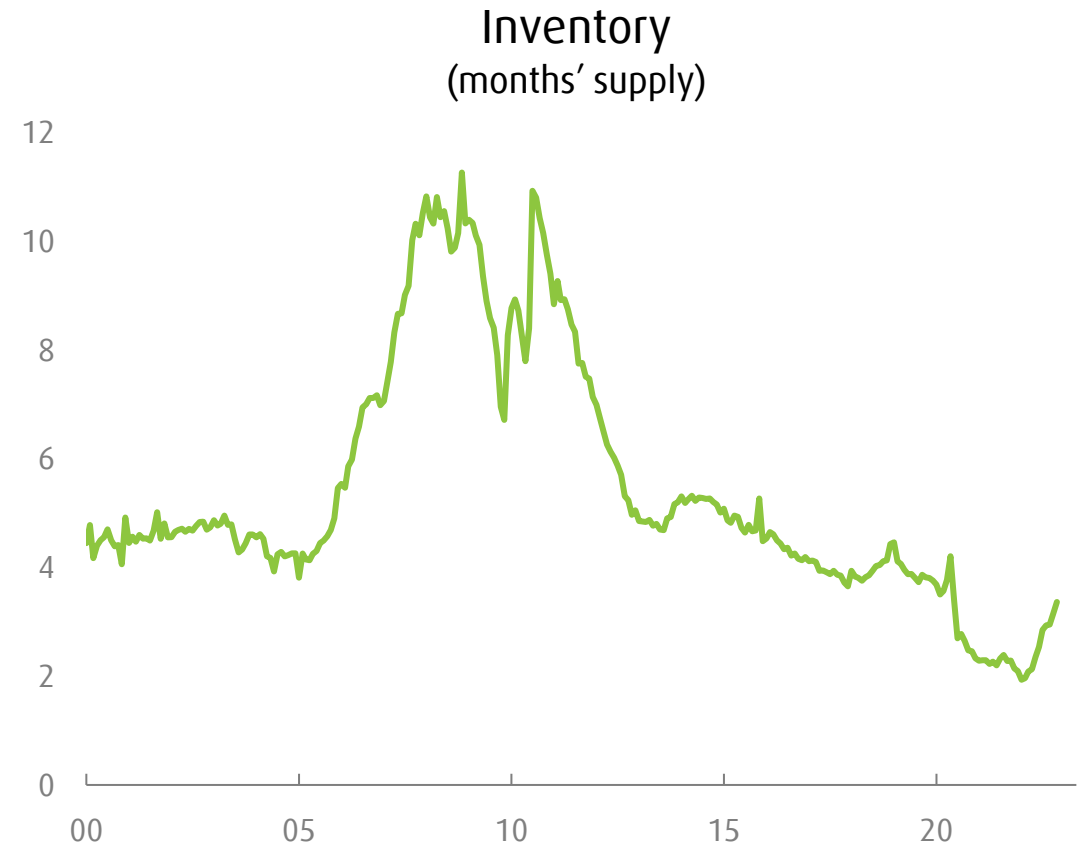
United States (percent)

30-year fixed-rate mortgages



# Housing market rolling over quickly

## United States – Existing homes

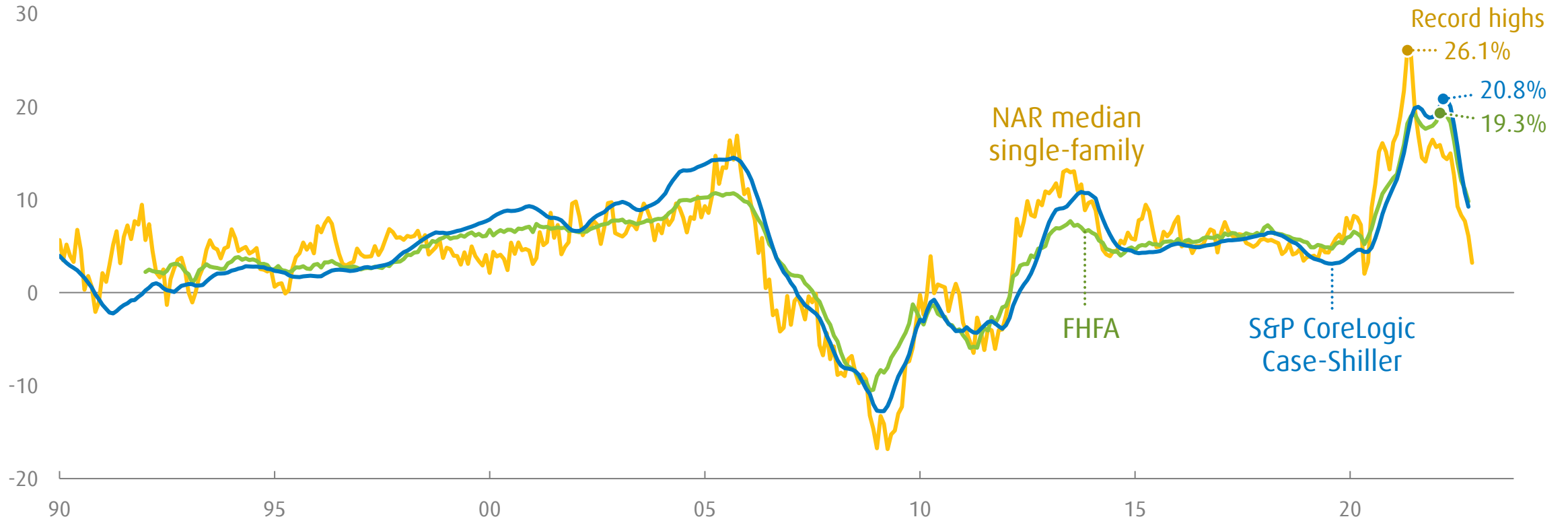


Hit worst affordability since 1980s

# Prior hot home prices cooling... tenant rents too

United States (y/y % chng)

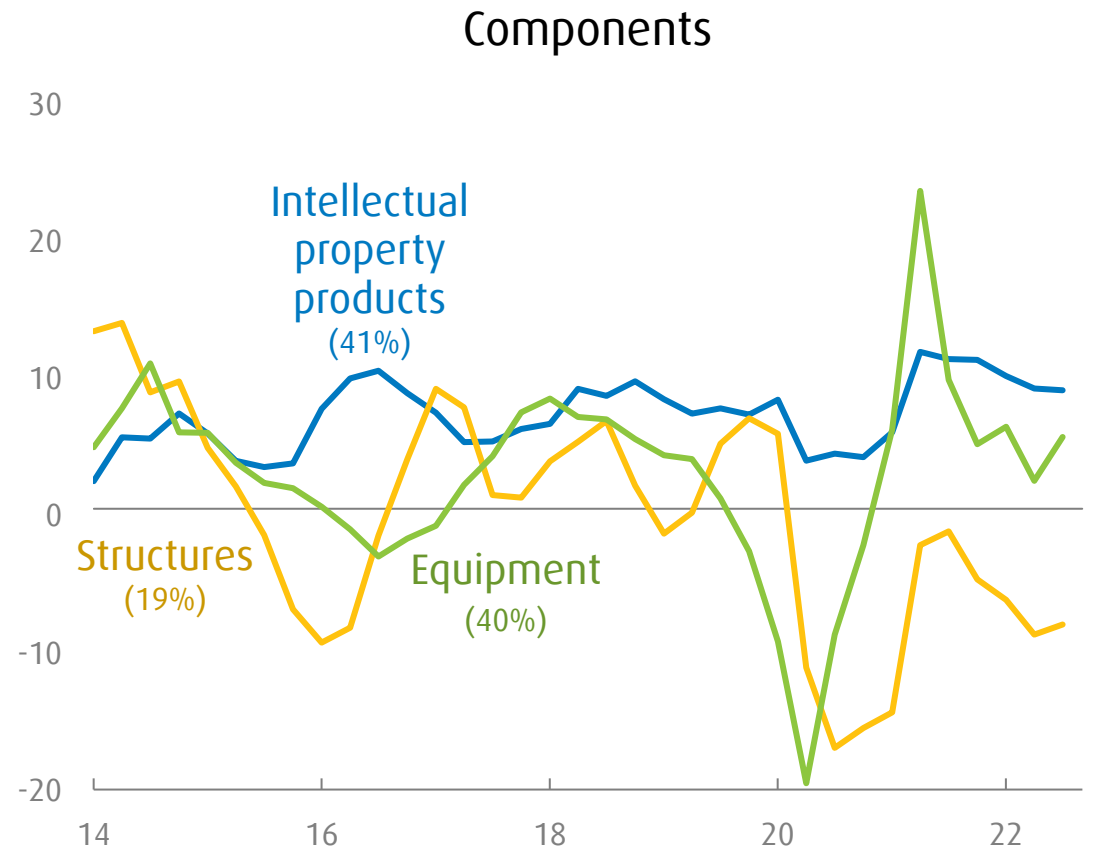
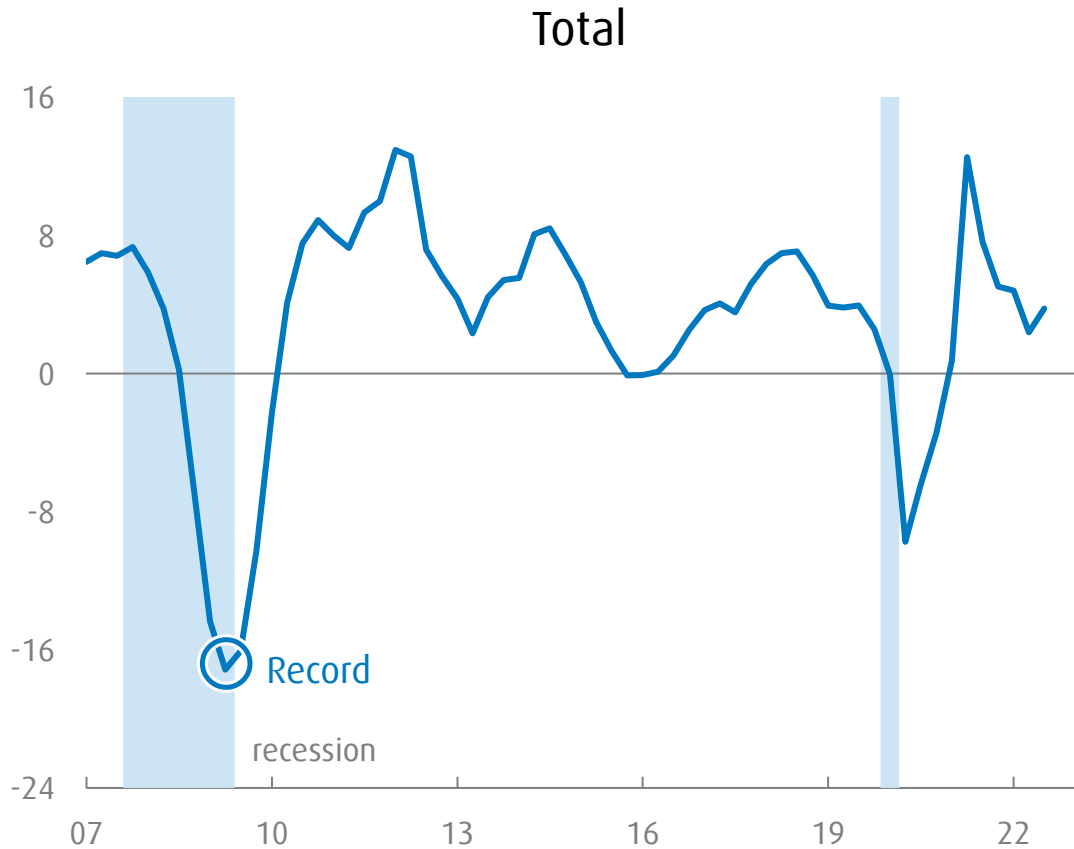
House price indices



CPI rents react with a lag, boosting measured inflation

# Tech/automation set capex pace

United States – Real business fixed investment (y/y % chng)

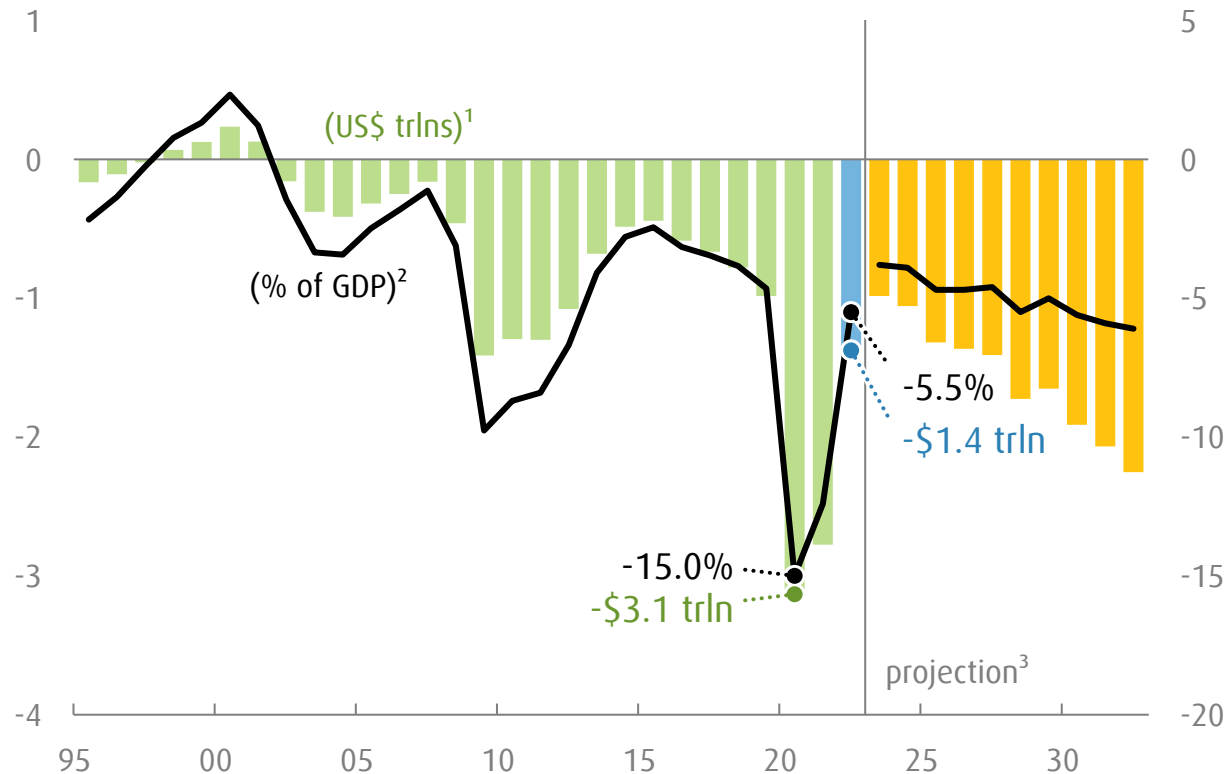


Lift from: Infrastructure Investment and Jobs Act (\$1.2 trln, ~\$550 bln new spending)  
 Inflation Reduction Act (~\$370 bln climate measures)

# Little scope for fiscal policy support

United States (fiscal years, figures reflect legislation signed before April 8, 2022)

## Budget balance



## CBO 10-year projection doesn't include:

**Inflation Reduction Act**  
(cuts ~\$294 bln through 2031:  
\$18 bln 2022-26, \$276 bln 2027-31)

**President Biden's student debt plan**

Leaving a legacy of lofty debt levels

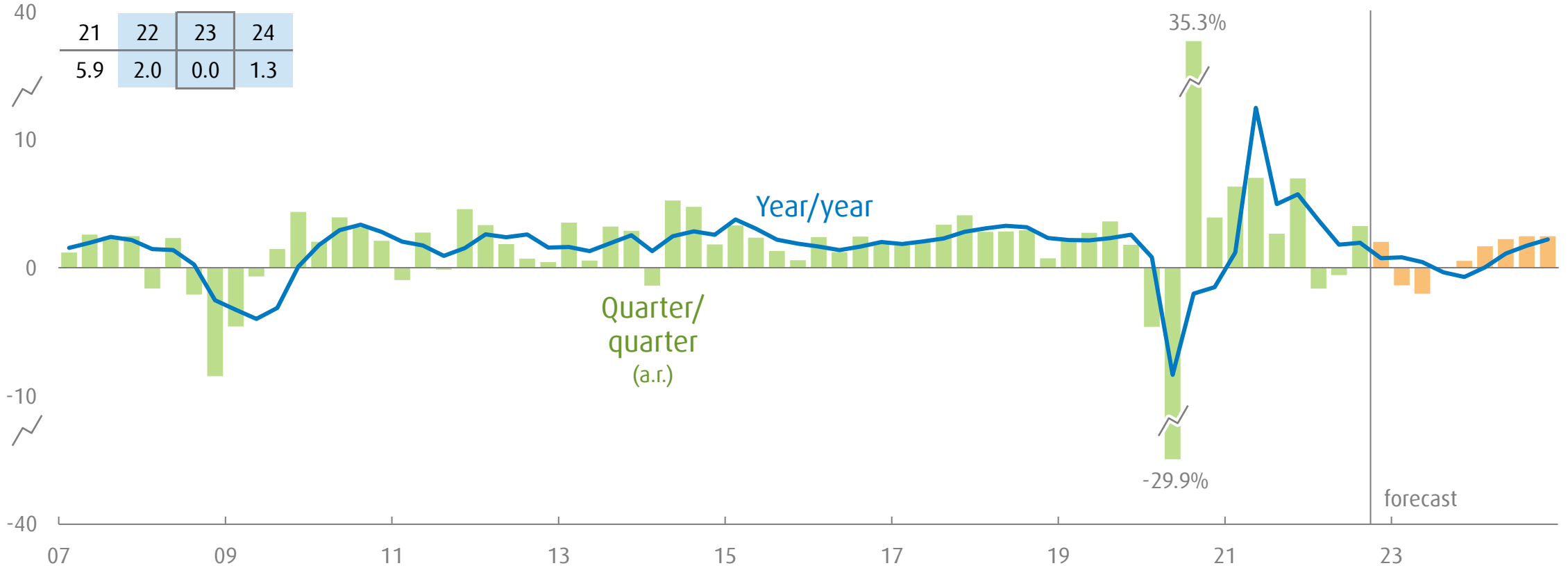
<sup>1</sup> (lhs) • <sup>2</sup> (rhs) • <sup>3</sup> CBO projection (May 2022)



# A shallow downturn

United States (% chng)

## Real GDP



# Labor market to slacken

United States (percent)

Unemployment rate

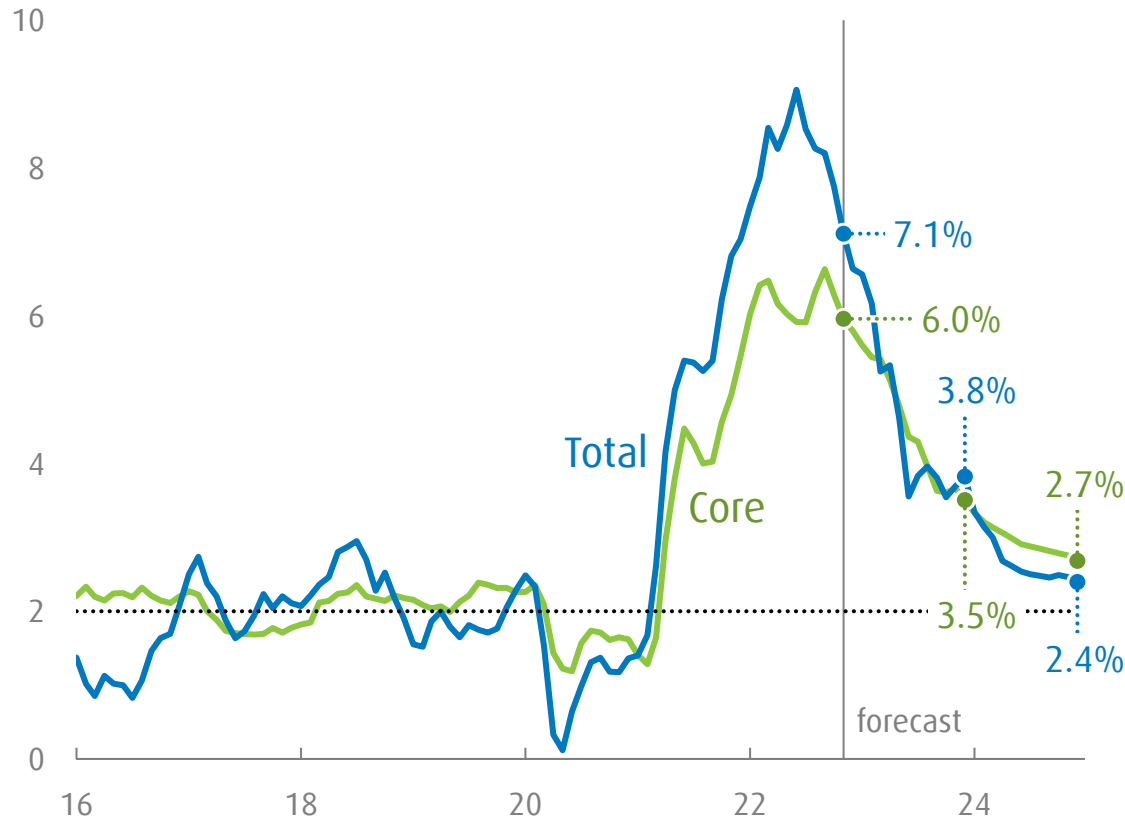


After a hard time hiring, businesses could be slow to shed employees

# Above-target inflation past 2023-end, but on path to 2% range

United States (y/y % chng)

Consumer price index



Some secular forces of disinflation are fading (e.g., globalization)

New secular forces of inflation are forming (e.g., climate change)

Chronic labor shortages

# Q and A

## Michael Gregory, CFA

Deputy Chief Economist and  
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[michael.gregory@bmo.com](mailto:michael.gregory@bmo.com)

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